

### FUND RATING ANNOUNCEMENT

GCR affirms Southchester (RF) Limited's national scale fund rating of AA<sub>(ZA)(f)</sub> with a Stable Outlook

#### Rating action

Johannesburg, 26 June 2024 – GCR Ratings (GCR) has affirmed Southchester (RF) Limited's (the Issuer or fund) national scale fund rating of AA<sub>(ZA)(f)</sub>, with a Stable outlook.

Rated Entity	Rating class	Rating scale	Rating	Outlook / Watch
Southchester (RF) Limited	Fund rating	National	AA <sub>(ZA)(f)</sub>	Stable Outlook

#### Fund data/summary

Fund inception date	01 October 2011
Fund currency	South African Rand
Assets under management (AUM)	ZAR3.8Bn (\$210.1M)*
Fund benchmark	South African Benchmark Overnight Rate (SABOR)
Net asset value (NAV)	Market value (variable NAV)

\*As at 31 May 2024

#### Rating rationale

**Fund profile:** Southchester (RF) Limited offers a short-dated, fixed income investment product, using an insolvency-remote special purpose public company which invests into a portfolio of high quality, liquid and rated South African money market instruments. The primary performance objective is to obtain as high a level of current income as is consistent with capital preservation and liquidity. The Issuer is regulated by the South African Reserve Bank in terms of the Banks Act, unlike other traditional funds, which are regulated by the FSCA under the Collective Investment Schemes Control Act.

**Weighted Average Credit Quality (WACQ):** GCR assigns a credit quality score to each of the fund's underlying instruments. Over the twelve months to April 2024, the fund maintained an unadjusted average WACQ score of 16.50, which reflects the credit strengths of the underlying portfolio with the big five South African banks accounting for 95.6% of the portfolio at April 2024. Although counterparty concentration to the big five South African banks is high, such concentration is typical for South African money market and income funds. The top tier banks in South Africa are characterised with strong quality and are well regulated. The fund's mandate was amended with effect from 30 May 2024, which is now more restrictive in terms of the investment universe and is viewed to be comparable to that of peer money market funds. Therefore, GCR removed the negative adjustment to the fund's unadjusted average WACQ score to reflect the tightened mandate of the fund.

**Maturity and Duration:** At April 2024, the fund's 12-month average Weighted Average Maturity (WAM) and Weighted Average Duration (WAD) were 259 days and 36 days respectively. GCR's WAM score was increased from -0.5 to 0 on the back of shorter average maturity over the review period compared to the previous review. Consequently, the average score for maturity and interest rate risk was revised to +0.50 from +0.25.

**Sustainability assessment:** The sustainability assessment (formerly management assessment) has remained neutral to the rating. Southchester Investment Managers is the portfolio manager. The team is experienced, which GCR believes ensures the requisite competence, capability and capacity to achieve the fund's performance objectives within the investment policy constraints. The fund's return has exceeded the South African overnight rate benchmark over the past three years. Environmental, Social and Governance (ESG) considerations are incorporated in the investment decisions.

**Liquidity:** The liquidity of the fund is viewed to be neutral to the rating, supported by a stable funding structure. Funding consists of senior class Notes issued to investors with varying investment horizons. The top ten investors account for 74.6% of the fund at April 2024 (previous review: 79.8%). Although most of the Notes have call features that allow investors to redeem them prior to maturity, which may negatively affect cash flows, the fund's exposure to repurchase agreements (61.8% at April 2024) partly mitigates this risk.

**Total Score:** The total risk score for the fund is 17.00 which could map to AA<sup>+(ZA)(f)</sup> rating. Nonetheless, GCR resolved to affirm the rating at AA<sub>(ZA)(f)</sub> given the fund's flexibility to the weighted average maturity compared to typical money market funds.

## Outlook statement

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The Stable Outlook reflects GCR's expectation that the fund will continue to maintain a stable WACQ score over the rating horizon dominated by the big five South African banks.

## Rating triggers

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If the unadjusted WACQ score increases to above 16.50 consistently while maintaining the WAM and WAD scores and/or there is a sustained reduction in the weighted average maturity, GCR could upgrade the rating. Conversely, the rating could be downgraded if there is significant deterioration in the quality of assets resulting in the unadjusted WACQ reducing to below 15.50.

## Analytical Contacts

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## Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2024  
 GCR Rating Scales, Symbols & Definitions, May 2023  
 Criteria for Fund Ratings, May 2024

## Ratings History

### Southchester (RF) Limited

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Fund Rating	Initial	National	AA <sup>(ZA)</sup> (f)	Stable Outlook	September 2017
	Last	National	AA <sup>(ZA)</sup> (f)	Stable Outlook	June 2023

## Risk Score Summary

Fund Rating Factors	Score
<b>Credit Quality</b>	<b>16.50</b>
Weighted Average Credit Quality (WACQ)	16.50
Adjustments	0.00
<b>Maturity and Interest Rate Risk</b>	<b>0.50 (average)</b>
Weighted Average Maturity (WAM) Assessment	0.00
Weighted Average Duration (WAD) Assessment	1.00
<b>Sustainability Assessment</b>	<b>0.00</b>
Franchise Strength and Manager Track Record	0.00
Performance	0.00
<b>Liquidity</b>	<b>0.00</b>
Liquidity Assessment	0.00
Adjustments	0.00
<b>Total Risk Score</b>	<b>17.00</b>

## Glossary

Agreement	A negotiated and usually legally enforceable understanding between two or more legally competent parties.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company

Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding.
Income	Money received, especially on a regular basis, for work or through investments.
Insolvency Remote	A feature, through real security and guarantees that reduces the enforceability of a creditor against a Special Purpose Vehicle. Typically a Security Special Purpose Vehicle should be bankruptcy remote.
Insolvency	When an entity's liabilities exceed its assets.
Interest Rate Risk	The potential for losses or reduced income arising from adverse movements in interest rates.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Mandate	Authorisation or instruction to proceed with an undertaking or to take a course of action. A borrower, for example, might instruct the lead manager of a bond issue to proceed on the terms agreed.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Overnight Rate	The overnight rate is the interest rate at which money due to be returned the next day is lent by one bank to another.
Portfolio Manager	A person responsible for the management of an investment portfolio.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Repurchase Agreement	In a REPO one party sells assets or securities to another and agrees to repurchase them later at a set price on a specified date.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Senior	A security that has a higher repayment priority than junior securities.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Weighted Average	An average resulting from the multiplication of each component by a factor reflecting its importance or, relative size to a pool of assets or liabilities.
Weighted	The weight that a single obligation has in relation to the aggregated pool of obligations. For example, a single mortgage principal balance divided by the aggregated mortgage pool principal balance.

### Salient points of accorded ratings

GCR affirms that a.) no part of the ratings process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security, or financial instrument.

The fund rating has been disclosed to the rated entity.

The rating above were solicited by, or on behalf of, the rated entity.

Subsequent to an appeal by the rated entity, the rating was revised as reflected in the announcement.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Exchange Rate Source: <https://www.bloomberg.com/markets/currencies> ZAR18.0829:\$1 as at 20 June 2024
- A breakdown of the fund investment portfolio, including information on the instruments and credit quality – 12 months to April 2024
- Other related documents.

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